

Item No.	Classification: Open	Date: 7 November 2013	Decision Taker: Strategic Director of Finance and Corporate Services
Report title:	Gateway 3 – Variation Approval Variation to the consolidated facilities management contract for 160 Tooley Street to include additional operational buildings		
Ward(s) or groups affected:	None		
From:	Head of Corporate Facilities Management		

RECOMMENDATION

1. That the strategic director of finance and corporate services approve the variation to the consolidated facilities management contract for 160 Tooley Street with Interserve Plc, namely to expand the operational scope to include the nine additional buildings listed below at an estimated annual cost of £727k from 1 February 2014 to 31 January 2018, giving a total estimated value for this variation of £2.9m, in turn giving a revised total contract value of £13.8m for the initial term.
 - (i) 17-27 Bournemouth Road
 - (ii) 47B East Dulwich Road
 - (iii) Talfourd Place
 - (iv) Curlew House
 - (v) Sumner House
 - (vi) Peckham Library and One Stop Shop
 - (vii) Southwark Resource Centre (Aylesbury)
 - (viii) 11 Market Place One Stop Shop
 - (ix) John Harvard Library

BACKGROUND INFORMATION

2. Facilities Management (FM) is a fundamental business support service that is vital to service delivery and business continuity and supports the council's ability to deliver the wider office accommodation strategy.
3. Following a competitive procurement exercise using the Government Procurement Service solutions framework, Interserve PLC was awarded a contract to provide consolidated facilities management services for the council's headquarters at 160 Tooley Street in October 2012.
4. The contract commenced in February 2013 and will run for five years with an option to extend for an additional two years. The contract allows the council to expand the operational scope to include additional buildings throughout the contract term subject to agreed criteria being met, including that the service provider attain and maintain a satisfactory level of performance post implementation, that the service requirements of additional buildings can be met from the existing specification with no requirement for significant amendment, and that best value for additional sites can be demonstrated. The tender and contract documents made specific reference to buildings (i) to (iv) listed above as being buildings which could be added to this contract, and also covers any other buildings owned or occupied by the council. Therefore having now successfully implemented the contract, evidenced a satisfactory level of operational performance, and developed a transitional process for bringing new buildings on-line as demonstrated by the two previous variations, corporate facilities management (CFM) are progressing the addition of more buildings.
5. A review of the operational estate has identified a further nine buildings that currently meet the necessary criteria, see closed report for further information. Following discussions with the relevant heads of service, CFM now has departmental agreement to move these buildings to the Tooley Street Facilities Management (TSFM) contract, and so the purpose of this report is to seek approval to issue a task order (the process used by CFM to inform the service provider of the intention to expand the scope of the contract) to Interserve for these buildings.

6. The contract will provide the following services to these buildings:
- planned preventative building maintenance, primarily routine and scheduled maintenance activity to building services and fabric.
 - reactive building repairs and maintenance e.g. repairs to broken windows
 - compliance with statutory regulations to meet all statutory and regulatory requirements relating to the building's fabric, plant and equipment (excluding those compliance activities that fall within the scope of the engineering inspection contract).
 - maintenance of building related equipment to ensure that it is in good working order.
 - provision of spares and consumables to include lighting tubes, plant lubricants and engineering parts
 - works projects i.e. refurbishment and alterations consisting of works required by the council to alter or improve the working environment.
 - cleaning, including internal and external window cleaning with the provision of all equipment and consumables such as toilet and hand tissues.
 - providing a comprehensive security operation delivering a safe and secure environment for all building users.
 - a proactive pest control service to keep the building as free as possible from vermin.
7. Including these buildings within the scope of the contract will result in a number of benefits including:
- A rationalisation in contract management requirements through the removal of multiple service providers.
 - A rationalisation in contract monitoring requirements through service delivery consolidation e.g. one monthly invoice.
 - Improved management information (MI) on the council's assets
 - Improved service delivery standards supported by focused key performance indicators (KPI's).
 - Increased cost certainty over the life of the contract.
 - Progression of the wider FM strategy to bring together FM service arrangements for the operational estate, and to develop these arrangements with partners to deliver further efficiencies supporting the council's current and anticipated savings targets.
 - Further integration with the council's in-house team to provide a seamless comprehensive and reliable FM service to all who use the buildings.
 - Increased economies of scale driven through the contractor's own service delivery and its supply chain as more buildings are added.
 - Increased benefits as the scope of the annual improvement plan widens.
8. In addition, staff and visitors at these sites will also benefit from the following:
- A unified 'one team' approach to all delivered FM services bringing consistency to the face of FM.
 - A strong customer focus approach with contractor and in-house services measured through customer satisfaction surveys.
 - Shared and individual ownership of FM issues across both in-house and contractor staff bringing prompt, positive and early resolution to all day to day issues based on a proactive approach.
 - Increased responsiveness to service requests and set reactive maintenance response times reducing downtime and increasing customer satisfaction.
 - A single point of contact for all services based on site at all times supported by the contractor's service desk interfacing with the council's in-house FM service desk giving a consistent customer experience.

KEY ISSUES FOR CONSIDERATION

Key aspects of proposed variation

9. The nature of the proposed variation is to expand the scope to include a further 9 buildings.
10. There have been two previous variations to the contract since its commencement in February 2013, detailed below:

No.	Date	Variation	Value	% Increase in contract value	Revised Total Value for Initial Contract Term
			At award		£7.15m
1.	May'13	Scope expanded to include two additional sites, 132 Queens Road and 1 Lugard Road.	£2.84m	40%	£9.99m
2.	Sept'13	Scope expanded to include additional site, Canada Water Library.	£938k	9%	£10.92m

11. The revised estimated value of the contract is £13.8m, which represents a 26% increase in the overall contract value.

Reasons for variation

12. The inclusion of these nine additional buildings will progress CFM's strategy of working towards a more consolidated approach to delivering facilities management services across the operational estate in a way that achieves best value for the council at time of great economic pressure.
13. The contract has a robust key performance indicator regime and the performance of Interserve PLC since contract award is meeting these targets. The contract is on schedule to deliver the anticipated cost reductions.

Alternative options considered

14. As referred to at paragraph 4, the TSFM contract allows for the inclusion of additional buildings as long as certain criteria can be met and value for money demonstrated. CFM is satisfied that these requirements have been met and that the inclusion of these 9 buildings will support the council's long term strategy of consolidating and streamlining the delivery of FM services. Therefore on this occasion no other options were considered for the provision of consolidated facilities services at these buildings.

Identified risks for the variation

15. Details of the risks and how they were/will be managed are outlined below:

No.	Risk	Risk Level	Mitigating Action
1.	Best value not achieved as a result of the absence of competition.	Low	Having awarded the contract in the last year following a competitive process, CFM is satisfied that the costs represent best value. The service provider has been asked to individually cost each new proposed building in accordance with the pricing identified in the

			contract. Where it has not been possible to identify pricing from the contract, for example in relation to specific plant installation maintenance costs, then these costs have been benchmarked with both existing costs, and those of comparable sites to ensure continuing best value.
2.	Secondary TUPE issues are not managed satisfactorily, potentially resulting in consultation and staff issues.	Low	The number of other contractor staff servicing the additional sites that will be subject to TUPE is low. CFM has already engaged with HR and legal teams to provide advice and guidance. As this is the third variation, CFM is confident that there is a tried and tested protocol for responding to identified TUPE requirements.
3.	Incorporating additional buildings into the contract will over extend the supplier's capacity leading to a drop in overall performance.	Low	The supplier is a major international company with more than 50,000 employees and so has the resources to expand as the contract requirements grow. There is a strong monitoring protocol in place and so any reductions in service delivery can be flagged early and action taken accordingly.

Policy implications

16. A key element of the corporate plan that the FM strategy supports is "transforming public services". This requires sound resource management of the council's property assets, how they are utilised and their effective operational and financial management. The effective and efficient procurement and delivery of FM services are integral to the sound management of the council's property assets.
17. The medium term resources strategy aligns financial priorities with the management of assets and the associated resources with which the council delivers its services. A modern FM service platform and an informed CFM client function will significantly support the council's medium and long term objectives providing flexibility and opportunities for efficiency savings.
18. The theme of "valuing the environment" will be increasingly supported through the delivery of an improved FM service delivery platform and effective strategic management of FM. Supported policies include "Southwark Cleaner Safer" and the "Sustainable Community Strategy". Other key corporate objectives are indirectly supported through improving working environments, improving customer facilities and enabling more effective service delivery.

TUPE implications

19. As on-site security services at the additional sites are currently provided by Charter Security PLC as part of the corporate security contract there will be secondary TUPE implications. Interserve PLC is aware of these implications and has extensive experience of successfully dealing with TUPE transfers. CFM is confident that the transfer of any staff affected will be handled effectively and sensitively. Interserve are already the corporate contractor for cleaning services to these buildings and so no TUPE issues will arise on that contract. No further TUPE issues have been identified from local service delivery arrangements.

Contract management and monitoring

20. The contract will continue to be managed by the CFM contracts team, primarily by the contract manager, with the support of the contracts officer. The team's responsibilities in relation to the delivery of this contract include:
- monitoring budget spend and compiling monthly spend profile reports for CFM.
 - checking the monthly invoice for accuracy
 - providing a robust single point of contact for end users
 - responding to complaints and service improvement requests
 - chairing monthly performance monitoring meetings
 - ensuring contractor performance reports are received
 - risk management
 - monitoring key performance targets and other performance standards.
21. Regular monthly monitoring of key performance targets is taking place and the majority of the major targets are being met. Where periodic shortfalls have occurred these have been addressed effectively through action plans and performance meetings. CFM is satisfied that required levels of performance will be achieved at the additional buildings.
22. In addition CFM will also manage the exiting of these buildings from existing corporate contracts e.g. security and advise departments as required regarding any local arrangements.

Community impact statement

23. As these buildings are used by members of the public there will be an impact on local people and communities. Interserve will ensure that staff providing services at these sites are fully conversant with the specific requirements of each building and are fully trained to deliver these services in a professional manner. Interserve will also continue to proactively promote employment of local people to service the contract.

Economic considerations

24. The gateway two contract award report highlighted Interserve's significant achievements in the areas of the Skills for Life project (the national strategy for improving adult literacy and numeracy skills), and the development of apprenticeship schemes specifically for FM services such as mechanical and engineering (M&E) training programmes. Since contract commencement Interserve has taken on an M&E apprentice who is now working at Tooley Street, and as the contract grows there may be an opportunity for another apprentice to join a small mobile works team. As a result of the addition of these 9 buildings a reduction of 10% was achieved in the management fee for these sites.
25. Interserve will continue to ensure that where possible the local community benefits by way of local supply chain provision and employment e.g. they recently changed to a vending company based in the borough in response to staff requests for more healthy options.

Social considerations

26. The extended scope of the contract will continue to ensure that all staff servicing the contract at the nine additional sites will be paid at least the London living wage resulting in better customer service from operatives, increased productivity and improved staff retention.

Environmental considerations

27. Interserve use environmentally friendly cleaning products and continue to work with CFM to improve recycled waste removal targets.

Financial implications

28. The estimated additional annual cost of expanding the contract to include these 9 buildings is £7276k. This equates to a total additional cost of £2.9m from 1 February 2014 to 31 January 2018.
29. Having tested the market in the last 12mths, and made it clear to applicants at the time that the number of buildings on the contract would grow, CFM is satisfied that the pricing model continues to represent best value and will deliver not only financial benefits but allow the council to achieve more efficiencies going forward as the service provider begins to achieve greater economies of scale through the expansion of the contract.
30. The contract will be funded from existing resources within the respective departments that currently occupy these buildings.
31. The contract is subject to an annual price review with the indexation mechanism linked to the RPIX.
32. Additional associated reductions in management overheads are expected to be achieved as part of CFM's on-going savings target.

Legal implications

33. Please refer to the legal concurrent from the director of legal services.

Consultation

34. CFM has consulted with the relevant key stakeholders at the various sites.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

35. This report is seeking to vary the existing corporate facilities management (CFM) contract to accommodate nine additional buildings as listed in the recommendation.
- ~~36. When the existing CFM contract was procured, there was always an intention to add other suitable council buildings to the contract provided value for money could be demonstrated. Paragraph 12 confirms that the inclusion of these buildings is in line with the CFM strategy.~~
37. Paragraph 7 highlights the benefits that will be gained by adding these buildings. These include efficiencies around contract monitoring and management, increased economies of scale and improved service standards. All of which help support the achievement of value for money.
38. With this variation, paragraph 19 highlights that secondary TUPE implications may exist. The report confirms that the proposed provider has experience of successfully transferring staff into their organisation and this therefore should not present any issues for the contract variation.
39. Paragraphs 20 – 22 outline the management and monitoring arrangements already in place for the CFM contract. The services delivered to the additional nine buildings will be monitored in the same way.

40. Since the start of the CFM contract, the report confirms that performance has been satisfactory and with the added benefits the variation would bring, there would appear to be no reason why the council would not wish to expand the volume of work through the contract.

Director of Legal Services


41. This report seeks approval for the variation of the consolidated FM contract with Interserve to include those additional 9 buildings noted in paragraph 1 of this report. The nature and value of this variation is such that the decision to approve is reserved to the strategic director of finance and corporate services.
42. As noted in paragraph 4, the council when tendering for this consolidated FM contract included within the tender and contract requirements the ability to include other council properties (defined as 'Affected Properties') by way of a task order. Four of these buildings were specifically noted in the definition of Affected Property, but the contract also includes provision for other buildings owned or occupied by the council to be added. When adding other buildings the council must ensure that these can be added within the existing scope and without requiring negotiation of the contract terms. Paragraph 4 confirms this to be the case, so these buildings may therefore be included within this contract without a further process of tendering.
43. Contract Standing Order 2.3 requires that no steps should be taken to vary a contract unless the expenditure involved has been approved. Paragraphs 28-32 confirm the financial implications of this variation.

Strategic Director of Finance and Corporate Services (F&CS13/033)

44. This report seeks approval to expand the current contract with Interserve plc to incorporate nine additional council buildings. The financial implications are detailed in paragraphs 28 to 32.
45. The strategic director of finance and corporate services notes that the cost of the contract will be met from funding already contained within departmental revenue budgets. Any additional costs arising will need to be contained within existing resources.
46. This contract will enable a reduction in management overhead, which will be identified during the council's budget setting process for 2014/15 and beyond. Officer time to implement this decision can be contained within existing resources.

FOR DELEGATED APPROVAL

Under the powers delegated to me in accordance with the Council's Contract Standing Orders, I authorise action in accordance with the recommendation contained in the above report.

Signature  Date...18.11.13.....

Designation STRATEGIC DIRECTOR OF FINANCE AND CORPORATE SERVICES

BACKGROUND PAPERS

Background Papers	Held At	Contact
TSM Gateway One Report (Procurement Strategy) Open version	F&CS, CFM, 2 nd Floor, Hub 4, 160 Tooley Street	Paul Symington 020 7525 0225
TSM Gateway Two Report (Contract Award) Open version	F&CS, CFM, 2 nd Floor, Hub 4, 160 Tooley Street	Paul Symington 020 7525 0225

TSM GW3 Variation May'13 Open version	F&CS, CFM, 2 nd Floor, Hub 4, 160 Tooley Street	Paul Symington 020 7525 0225
TSM GW3 Variation Sept'13 Open version	F&CS, CFM, 2 nd Floor, Hub 4, 160 Tooley Street	Paul Symington 020 7525 0225

APPENDICES

No	Title
None	

AUDIT TRAIL

Lead Officer	Matthew Hunt, Head of Corporate Facilities
Report Author	Paul Symington, Facilities Operations and Service Delivery Manager, Jan McMahon, Head of Corporate Contracts & Contract Management
Version	V.9 Final Open with Concurrents
Dated	7.11.13
Key Decision?	Yes

CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER

Officer Title	Comments sought	Comments included
Head of Procurement	Yes	Yes
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
Head of Specialist Housing Services	n/a	
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
Cabinet Member	n/a	
Date final report sent to Constitutional Team		